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SUBJECT: Vietnam Mid-Term Consultative Group Meeting

1. SUMMARY: The mid term consultative group meeting was held on 2-3 June in Can Tho. Presentations were made on a range of topics including corruption, development of Vietnam's new five year development plan and financial reform. Overall, however, the meeting was hampered because a draft five year plan, the anticipated central organizing document for the meeting, was unavailable for distribution, analysis or comment. End summary.

2. On June 2 and 3, representatives from the Government of Vietnam, 22 donor countries, 13 international agencies, four international NGOs and the private sector gathered for the informal mid-year Consultative Group (CG) meeting in Can Tho City. Among those attending were representatives from the Asian Development Bank, International Finance Corporation, International Monetary Fund and World Health Organization. First time participants included representatives from Ireland, Spain and Hungary.

3. The United States was represented by Ambassador Michael Marine and USAID Regional Mission Director Timothy Beans. The delegates reviewed the state of Vietnam's economy, preparation of Vietnam's next five-year Socio-Economic Development Plan (SEDP) and its integration with the Government's Comprehensive Poverty Reduction and Growth Strategy (CPRGS) process, the preparation for WTO accession, and the status for reforms in the banking sector, anti-corruption and public administration reform, as well as legal and judiciary developments. Also discussed was the effectiveness of Official Development Assistance (ODA), the fight against HIV/AIDs and the need to curb the spread of Avian Influenza. Two recurring themes throughout all of these discussion was the need for the Five Year Plan to leave room for the private sector to grow and take on a greater role in development and the concurrent need for financial sector reform.

4. Deputy Prime Minister Vu Khoan opened the meeting by presenting an overview of the challenges facing the Vietnamese economy and inviting frank comments. He noted that the latest multilateral negotiations for WTO membership in Geneva have been concluded on a positive note, and Vietnam is moving towards the conclusion of bilateral negotiations with a large number of partners. The National Assembly, he said, will amend this year's law-making agenda to meet WTO entry requirements and to focus on creating an enabling business climate, address social issues, and reinforce anti-corruption measures.

5. Minister Vo Hong Phuc of the Ministry of Planning and Investment (MPI) provided an update on socio-economic developments and activities carried out since the CG in December 2004 to prepare the new SEDP, integrating the CPRGS approach. In his opening remarks, Phuc recited a litany of positive economic statistics: growth remains high for the first five months at an estimated rate of 7.3% with industrial growth over 15%. Trade and tourism grew 20% and 22%, respectively. Overall private sector grew at 24%, and foreign direct investment increased by 90%. While overall economic growth is strong, the government will need to grow at 9% for the rest of the year to reach the 8.5% target set by the National Assembly. Phuc noted that this will be difficult as a number of constraints are hampering growth, most especially the energy shortage. The government will take a number of actions to help maintain growth including simplification of rules and regulations for foreign and domestic investment, greater emphasis on fighting corruption and accelerated reform of the services and financial sectors, along with accelerated equitization of the state-owned enterprises (SOEs).

6. In their response, donors commended MPI for committing to consultations at all levels of government and with all population groups. They singled out the Ministries of Rural Development, Education and Transport for the substantive consultations already carried out and recommended similar consultations be held with other ministries. Donors emphasized the importance of engaging early in a substantive discussion of the SEDP to facilitate the alignment of their ODA programs to the new SEDP but were disappointed that the government did not have specific documentation or at least the strategic overview of each key sector to share. Japan echoed this view

noting they intended to align their ODA program with the next SEDP. In response, the Government said it and the World Bank would co-host a workshop for donors in early August to discuss the first draft of the SEDP.

17. During discussions on the state of the economic reform program, the IMF representative emphasized the importance of faster banking sector reform to protect debt sustainability, improve credit allocation, and promote higher-quality investment and growth. Early action should be taken to strengthen the State Bank of Vietnam's independence and clearly establish its supervisory authority over all the banking institutions that operate in Vietnam. The equitization plans for state-owned commercial bank SOCB) reform need to be pursued without further delay; government interference in the lending decisions of SOCBs need to be curtailed, and corporate governance should be significantly strengthened.

18. Numerous delegates, pointing out that corruption increases the cost of doing business and often most affects the poor and most vulnerable, commended the Government Inspectorate for its preparation of a draft law on anti-corruption and overall efforts to strengthen administrative, legal and judiciary reform. The Inspectorate presentation was frank, and the draft law appeared comprehensive in scope. If implemented effectively, its preventive measures such as asset declaration of Government officials, could be effective in curbing corruption. Sweden, the lead donor in assisting the Government in analyzing corruption and strengthening the capacity of the inspectorate system, urged that a support program begin before the next CG meeting in December.

19. Delegates noted that progress in harmonizing procedures continues and expressed their commitment to continue efforts at harmonizing ODA procedures in light of the outcome of the Paris High Level-meeting on aid effectiveness. They also discussed the Hanoi Core Statement which represents an effort to localize the Paris declaration on aid effectiveness. Both are based on principles of government ownership, donor harmonization, simplification, and managing for results. Delegates welcomed the Hanoi Core Statement and expressed the intent to reach a final endorsement ahead of the New York summit on Aid Effectiveness in September. The EU has been leading this effort in Vietnam and the European Commissioner noted that as donors continue working with Government to align support to the SEDP, a parallel effort is needed to strengthening the Government's public service delivery systems and ensure consistency between the new SEDP and ODA regulations. Some donors, including the French, expressed a willingness to provide financial support directly to the Government's budget and rely more on the Government's own mechanisms for disbursing funds. (FYI Budgetary support is not part of the USAID program in Vietnam and the U.S. delegation noted that we need time to fully review the Hanoi core statement. It has since been sent to the U.S. DAC representative in Paris for his comments and clarification. END FYI.)

10. In the discussion on HIV/AIDS, Minister of Health Tran Thi Trung Chien described recent efforts to prevent the spread of HIV/AIDS and to provide effective assistance to those living with HIV/AIDS. She particularly noted the May decision of the Prime Minister to establish a new HIV/AIDS Control Department under the MOH as a sign that the government is taking the problem seriously. She noted that intergovernmental and donor coordination has been strengthened but added that her government's manpower is limited. Delegates expressed their desire to continue working with the government on this, but emphasized the importance of strengthening the coordination within Government and between donors. (FYI - A recent response to a letter signed by the UNDP rep and six ambassadors, including Ambassador Marine, which called for improved coordination, was essentially non responsive to the points raised. End FYI.)

11. Madame Chien also presented a status report on managing and preventing outbreaks of Avian Influenza, summarizing recent government's actions. A number of donors described current and planned assistance in this area. Japan, for example, said it was considering providing a bio-safety level 3 lab to the National Institute of Health and Epidemiology while the UNDP is continuing to set up a planned trust fund for donor funding. In response to a question from the U.S. development representative, Tim Beans, Minister Chien did not answer the question of when Vietnam would have an effective disaster preparedness plan in place. The WHO estimates that should a significant outbreak of human AI occur that Vietnam would have a two to three week window to prevent a pandemic and such a plan is essential. Ambassador Marine raised this point again at the heads of delegation luncheon with Deputy Prime Minister Vu Khoan who agreed to explore convening a meeting of government officials and donors to get movement on this issue.

12. In his closing remarks, the World Bank Country Director,

summed up the meeting: Vietnam is at an important juncture in its development process and the next SEDP should provide guidance for completing the transition to a market economy. The government's role will be to create the right incentives for the private sector to lead economic growth. This implies that the government will treat production targets as indicative and focus more on development outcomes. In areas such as infrastructure, where investment requirements are enormous, as illustrated by recent power shortages, the government will need to engage the private sector more as a partner in meeting the needs. Planning and Investment Minister Vo Hong Phuc underlined Vietnam's commitment to work with donors to develop a new five-year Socio-Economic Development Plan for 2006-2010 with a new approach, where the government will play a guiding rather than an interventionist role in addressing important social and economic challenges. The government, he said, remains committed to move towards a new planning approach focused on outcomes, with community consultation and finalizing public expenditure plans more openly. In closing, delegates agreed that they would meet in December for the annual CG meeting.

BOARDMAN